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SAFEWAY STORES, INCORPORATED, ANNUAL REPORT 1968

Safeway's Corporate Objectives

To make Safeway stock an increasingly profitable investment for our shareholders.

To practice responsible citizenship in the conduct of our business, and in community and social relations.

To satisfy increasing numbers of customers, at a profit sufficient to assure the continuing healthy growth of the Company.

To provide attractive, convenient stores staffed with courteous employees, and stocked with the products customers want to buy.

To be known for superior perishables—meats, produce, dairy products, and baked goods.

To operate efficiently at the lowest costs consistent with quality and growth.

To be alert to new ideas, opportunities, and change.

To strengthen our organization by continuous and systematic training and development of employees and managers.

To offer our employees responsibility, challenge, and satisfying rewards for accomplishment.

increasing numbers of customers…”

To make Safeway stock an increasingly profitable

	1968	1967
Operating Results(1)		
Sales	$3,685,690	3,360,880
Income before provision for income taxes	115,526	100,128
Provision for income taxes	60,465	49,235
Net income	55,061	50,893
Net income as a percent of sales	1.49%	1.51
Distribution of Earnings(1)		
Dividends to preferred stockholders	$ —	—
Dividends to common stockholders	28,036	27,975
Earnings retained in the business	27,025	22,918
Per Share of Common Stock		
Net income	$ 2.16	2.00
Depreciation	1.73	1.64
Cash flow(2)	3.89	3.64
Dividends paid	1.10	1.10
Working capital (at end of year)	6.06	5.40
Book value (at end of year)	16.89	15.83
Price range New York Stock Exchange—Low-High	23¼-31¼	21⅜-28⅛
Financial Position (at end of year)		
Working capital(1)	$ 154,559	137,668
Current assets per dollar of current liabilities	1.73	1.70
Equity of common stockholders(1)	430,586	403,541
Other Statistics		
Number of employees (at end of year)	83,655	78,000
Number of stockholders of record (at end of year)	72,793	73,851
Number of stores (at end of year)	2,241	2,240
Average annual sales per store(1)	$ 1,612	1,475

(1) *In thousands of dollars.*
(2) *Based on average shares outstanding during year.*

investment for our shareholders."

Robert A. Magowan

Quentin Reynolds

TO SAFEWAY SHAREHOLDERS, CUSTOMERS AND EMPLOYEES:

1968 marked another all-time high in Safeway sales, the sixth consecutive new record. Consolidated sales were $3.69 billion, up 9.7% from $3.36 billion in 1967.

Net profits also showed a reasonably good increase, up 8.2% from $50.9 million to $55.1 million (our second best year). Per share earnings came to $2.16 vs. $2.00 the previous year. In 1968 the Federal Government levied a 10% surtax on top of the regular corporate tax payment. For Safeway this resulted in a total of $48.2 million in federal income taxes as compared to $43.8 million which would have been paid at the previous rate. This additional $4.4 million was equivalent to 17¢ per share. Without the surtax our 1968 earnings would have been $2.33 per share.

Change was a dominant theme in 1968 as many food retailers continued to alter their merchandising approaches. Discounting, in varying degree, mushroomed in many parts of the country. Warehouse-type stores, offering bare minimum facilities and services, became more numerous. Convenience stores increased in number. Many firms expanded product lines or took on supplementary businesses or services, to offset potential inroads by both traditional and "new" competitors.. Prominent among the latter are numerous types of eating-out establishments.

Safeway has been doing more than watching these developments. We have been active in a number of directions, to be better prepared to satisfy our customers' changing wants and needs.

For example, we have several full-scale discounting operations under way, and are keeping a careful check on consumer response and acceptance; we have dropped trading stamps in several areas where consumer preference for them had waned; we have developed several "Safeway Jr." outlets to accommodate the special needs of certain densely populated apartment house areas; our Drug Center operations in California and Alaska have shown marked improvement; we are conducting a small-scale experiment in the use of bank credit card programs; we have recently formed a partnership with Holly Farms Poultry Industries, Inc. of North Carolina to operate ready-to-eat, take-home chicken outlets—the first of these will be in operation this Spring in the Washington, D.C. area; we will continue our search for additional opportunities to diversify where we can productively use our know-how and facilities.

One of our corporate objectives is to practice responsible citizenship. The need has been particularly in the forefront this past year, as mentioned elsewhere in this report. Safeway has responded through active participation in efforts to recruit and train needy and underprivileged youth and adults, placing them in meaningful jobs. This is not a one-time effort; it is a continuing concern. American business has a responsibility, if only for its own self-interest, to take an important role in trying to find solutions to social problems of the community.

Drummond Wilde, a highly regarded member of our management team, retired at the end of the year. We will miss his dedicated service in the demanding jobs of Secretary, Vice President and General Counsel. Robert J. Van Gemert, formerly Assistant General Counsel, is replacing Mr. Wilde in these capacities.

There were two additions to the Board of Directors in 1968, increasing the number from 17 to 19. These were Glenn K. Mowry, Vice President and Treasurer (formerly Executive Vice President and Chief Financial Officer of the Bank of California), and Merrill L. Magowan, of Merrill Lynch, Pierce, Fenner & Smith Incorporated.

Our international operations continue to be a bright spot. Consumer acceptance of our overseas stores in Australia, the United Kingdom and West Germany has been most encouraging, and we are planning for steady expansion in all these regions.

We have continued with an active building program in 1968, opening 122 new stores. Although we have closed approximately the same number of old and obsolete stores, there has been a significant growth in ability to serve our customers. These new stores have added 2.6 million square feet of floor space, compared to a loss of 1.3 million square square feet in the smaller abandoned units.

1969 plans call for similar growth in all areas presently served, plus extension into the Houston, Texas market. We are also actively seeking entry into the Province of Ontario in Canada.

Safeway people continue to make us proud. More than 1,700 of them are now serving in the Armed Forces. These men and women have interrupted their careers to take on a formidable task on behalf of every one of us. We hope and pray that 1969 will see developments that will permit these fine people to return soon to their families and their jobs.

Robert A. Magowan

Chairman of the Board and Chief Executive Officer

Quentin Reynolds

President

...at a profit sufficient to assure the continuing healthy

SALES

Sales of Safeway and its consolidated subsidiaries were $3.69 billion in 1968, an increase of 9.7% over 1967, and another new record for the Company. Average sales per store on an annualized basis increased from $1.48 million in 1967 to a record high of $1.61 million in 1968. Although the replacement of smaller stores by larger stores added significantly to our sales in 1968, the principal source of increased sales was from continuing stores.

NET INCOME

Consolidated net income of $55.1 million in 1968 was the second highest in Safeway's history and 8.2% more than 1967. Net income was reduced by $4.4 million due to the 10% surtax in effect during 1968. Our net earnings ratio of 1.49% of sales was again one of the highest in the industry.

The increase in 1968 earnings was from U.S. and overseas operations. (Canadian earnings declined slightly, as discussed later under "Foreign Operations.")

Earnings per share on the average number of Common shares outstanding during the year were $2.16 compared to $2.00 in 1967 and $2.35 in the record year of 1966. The 10% surtax decreased 1968 earnings by 17¢ per share.

SOURCE AND USE OF FUNDS

As indicated in the "Financial Highlights," the principal sources of funds were internal. Not shown was an additional $42 million from proceeds of sale-leasebacks of land and buildings, netted against fixed assets. Depreciation charges were $44.2 million in 1968 compared to $41.6 million in 1967. Funds were used principally for additions to fixed assets and dividends. Dividend payments of $28.0 million were 51% of net income available for dividends.

The net addition to fixed assets amounted to $53.3 million in 1968 compared to $61.4 million in 1967. It is contemplated that we will continue building new facilities and improving retained facilities in 1969 at a pace slightly above that of 1968.

OTHER FINANCIAL DATA

Current assets were 1.73 times current liabilities at year-end 1968 compared to 1.70 times for 1967. Average beginning and ending inventories at cost were turned over 13.56 times in 1968 sales as compared to 13.30 times in 1967. Average year-end cash turned over 86.17 times in 1968 sales as compared to 69.80 times in 1967. Rate of return of net income on average beginning and ending Common stockholders' equity was 13.17% in 1968 as compared to 12.93% in 1967.

Working capital increased $16.9 million during 1968. Common stockholders' equity increased $27.0 million or $1.06 per share. All of these financial yardsticks indicate the continuation of a strong financial position for the Company.

RETAIL STORES

During 1968, we opened 105 food stores in the U.S. and closed 107. In addition, we converted 2 drug centers into non-food sections of adjacent Safeway food stores. At year-end, we operated 1,900 food stores and 31 drug centers in the U. S.

In Canada, we opened 11 food stores, closed 9, and had 254 in operation at year-end. Overseas, we opened 3 food stores and closed 1 in Australia, and opened 3 and closed 2 in the United Kingdom. At year-end, we operated 19 food stores in Australia, 30 in the United Kingdom, and 7 in West Germany.

FOREIGN OPERATIONS

As we did last year, we are reporting pertinent Balance Sheet and Income Statement data for our Canadian operations and overseas retail food operations in Australia, United Kingdom and West Germany. This data has been translated to U. S. dollars and is presented in the table below.

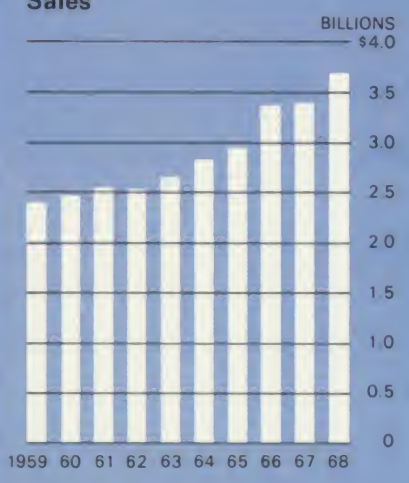
Consolidated sales of our foreign operations increased 9.7% as sales of our Canadian operations increased 9.0% and sales of our overseas operations increased 14.0%. Consolidated net income, however, decreased 4.1% as Canadian net income declined 9.5% while overseas income more than doubled. The decline in Canadian income was attributable to an intensification of competitive activity in Canada which kept retail prices down despite upward pressures of increased costs, particularly in higher labor rates. Net income in each of our overseas operations increased in 1968 over 1967 due to the expansion of our facilities and the increasing public acceptance of Safeway products and methods.

We look forward confidently to expanding and increasingly profitable operations of our foreign subsidiaries.

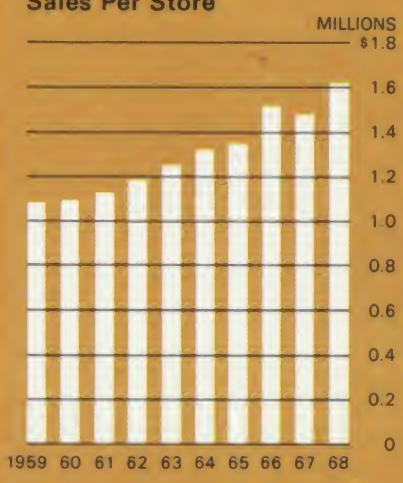
BALANCE SHEET DATA 1968	Canadian Operations	Overseas Operations	Consolidated
Current Assets	$ 57,311,799	$ 6,935,288	$ 64,247,087
Investment in Overseas Subsidiaries	19,277,254	—	—
Other Assets	459,498	4,159,290	4,618,788
Property (Net)	55,203,645	15,598,917	70,802,562
Total	$132,252,196	$26,693,495	$139,668,437
Current Liabilities	$ 30,332,979	$ 6,780,631	$ 37,113,610
Long-Term Liabilities	2,191,933	—	2,191,933
Loans by Parent	—	8,999,915	—
Preferred Stock	5,918,900	—	5,918,900
Equity of Parent	93,808,384	10,277,339	93,808,384
Minority Interests	—	635,610	635,610
Total	$132,252,196	$26,693,495	$139,668,437
INCOME STATEMENT DATA 1968			
Sales	$486,737,727	$74,221,888	$560,959,615
Pre-Tax Income	21,078,868	1,095,511	22,174,379
Provision for Income Taxes	10,917,479	27,829	10,945,308
Net Income	$ 10,161,389	$ 1,067,682	$ 11,229,071

growth of the Company."

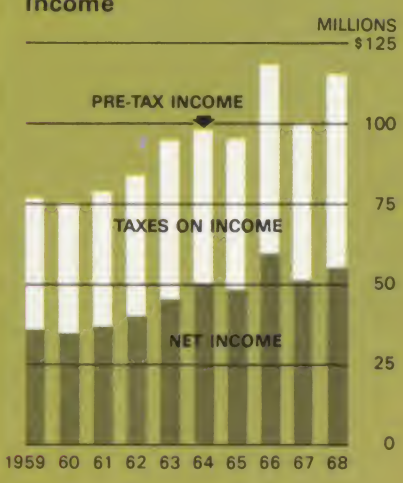
Sales



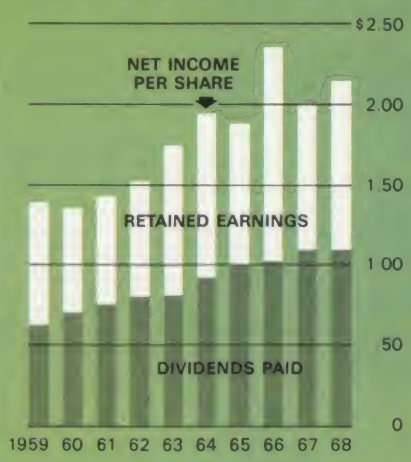
Average Annual Sales Per Store



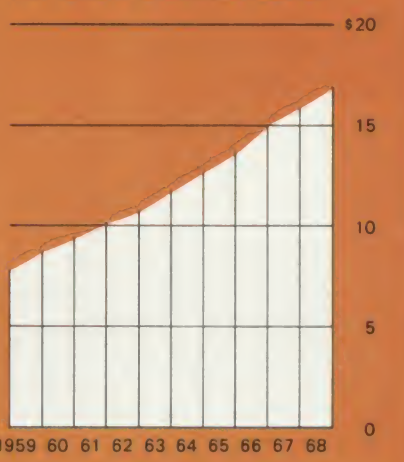
Income



Net Income Per Share Common Stock



Equity Per Share Common Stock



FINANCIAL HIGHLIGHTS

		1968	1967	1966	1965
Operating Results(1)	Sales	$3,685,690	3,360,880	3,345,187	2,939,043
	Income before provision for income taxes	115,526	100,128	117,793	95,150
	Provision for income taxes	60,465	49,235	58,045	46,965
	Net income	55,061	50,893	59,748	48,185
	Net income as a percent of sales	1.49%	1.51	1.79	1.64
Distribution of Earnings(1)	Dividends to preferred stockholders	$ —	—	—	173
	Dividends to common stockholders	28,036	27,975	26,039	25,376
	Earnings retained in the business	27,025	22,918	33,709	22,636
Per Share of Common Stock	Net income	$ 2.16	2.00	2.35	1.89
	Depreciation	1.73	1.64	1.53	1.47
	Cash flow(2)	3.89	3.64	3.88	3.36
	Dividends paid	1.10	1.10	1.02½	1.00
	Working capital (at end of year)	6.06	5.40	5.37	5.55
	Book value (at end of year)	16.89	15.83	14.96	13.63
	Price range New York Stock Exchange—Low-High	23¼-31¼	21⅜-28⅛	23⅝-31½	30⅛-42¼
Financial Position (at end of year)	Working capital(1)	$ 154,559	137,668	136,582	140,891
	Current assets per dollar of current liabilities	1.73	1.70	1.69	1.83
	Equity of common stockholders(1)	430,586	403,541	380,262	346,139
Other Statistics	Number of employees (at end of year)	83,655	78,000	74,798	69,248
	Number of stockholders of record (at end of year)	72,793	73,851	72,609	66,651
	Number of stores (at end of year)	2,241	2,240	2,173	2,128
	Average annual sales per store(1)	$ 1,612	1,475	1,514	1,349
Source and Use of Funds(1)	FUNDS PROVIDED FROM:				
	Net income	$ 55,061	50,893	59,748	48,185
	Charges to income not requiring funds:				
	Depreciation provision	44,158	41,643	38,750	37,350
	Deferred income taxes	3,033	3,480	2,822	2,987
	Provision for decline in conversion value of Canadian assets	—	—	1,300	950
	Decrease in working capital	—	—	4,471	—
	Decrease in other assets	—	349	—	11,023
	Increase in long-term debt	—	—	—	—
	Sale of capital stock	—	1,345	412	—
	Total	$ 102,252	97,710	107,503	100,495
	FUNDS USED FOR:				
	Dividends to Company stockholders	$ 28,036	27,975	26,039	25,549
	Additions to fixed assets (net)	53,260	61,387	72,657	54,025
	Increase in working capital	16,891	4,870	—	728
	Increase in other assets	461	—	5,389	—
	Decrease in long-term debt	3,368	3,147	3,118	3,571
	Decrease in minority interest	236	331	300	277
	Retirement of capital stock	—	—	—	16,345
	Total	$ 102,252	97,710	107,503	100,495

(1) *In thousands of dollars.*
(2) *Based on average shares outstanding during year.*

AND TEN-YEAR SUMMARY

1964 (53 WEEKS)	1963	1962	1961	1960	1959 (53 WEEKS)
2,817,569	2,649,712	2,509,644	2,538,032	2,468,973	2,383,011
97,875	94,746	83,326	78,587	75,178	76,511
47,895	49,930	44,055	41,985	40,360	40,810
49,980	44,816	39,271	36,602	34,818	35,701
1.77	1.69	1.56	1.44	1.41	1.50
735	838	903	1,021	1,082	1,130
23,367	20,723	20,052	19,045	17,676	15,415
25,878	23,255	18,316	16,536	16,060	19,156
1.95	1.75	1.53	1.43	1.36	1.40
1.35	1.28	1.24	1.26	1.18	1.13
3.30	3.03	2.77	2.69	2.54	2.53
.92½	.82½	.80	.76¼	.71¼	.62½
5.53	4.78	4.70	4.96	4.34	4.59
12.73	11.71	10.78	10.04	9.36	8.70
28-37¾	22¾-32⅜	18⅛-30⅛	18⅜-31⅞	16¼-20¼	17⅜-21⅛
140,163	120,177	117,902	124,085	108,611	113,285
1.89	1.74	1.81	1.89	1.78	1.86
322,501	294,551	270,298	251,326	232,606	215,080
68,804	66,605	63,120	60,896	63,507	63,149
58,100	58,900	59,900	58,600	59,000	59,000
2,099	2,059	2,069	2,054	2,207	2,164
1,322	1,250	1,183	1,131	1,101	1,088
49,980	44,816	39,271	36,602	34,818	35,701
34,178	32,230	30,970	31,435	29,177	27,805
(346)	1,514	1,300	540	—	—
650	650	1,500	700	—	—
—	—	6,184	—	4,674	—
—	—	—	714	1,072	—
27,271	—	—	—	—	—
—	—	—	—	—	255
111,733	79,210	79,225	69,991	69,741	63,761
24,102	21,561	20,955	20,066	18,758	12,569
44,486	46,281	46,658	28,126	43,525	36,833
19,986	2,275	—	15,474	—	7,544
22,446	1,777	3,425	—	—	245
—	6,384	6,168	5,702	7,118	6,270
295	300	300	300	300	300
418	632	1,719	323	40	—
111,733	79,210	79,225	69,991	69,741	63,761

SAFEWAY STORES, INCORPORATED AND

CONSOLIDATED

As of December 28, 1968 (With

ASSETS	December 28, 1968	December 30, 1967
Current Assets		
Cash	$ 43,908,844	$ 41,632,432
Receivables	13,377,549	12,057,450
Merchandise inventories—at lower of cost or market (first in, first out or retail method)	288,370,538	255,149,292
Prepaid expenses	12,011,039	12,364,023
Properties for development and sale within one year	9,955,964	11,792,708
Total Current Assets	367,623,934	332,995,905
Other Assets		
Notes receivable, licenses, and miscellaneous investments	8,229,073	7,017,458
Excess of cost of investment in subsidiaries over net assets at date of acquisition	4,054,488	4,054,488
	12,283,561	11,071,946
Property, at Cost		
Buildings	27,075,961	28,185,991
Leasehold improvements	68,652,358	59,801,307
Fixtures and equipment	453,663,541	432,190,692
	549,391,860	520,177,990
Less accumulated depreciation	264,626,847	244,785,519
	284,765,013	275,392,471
Land	33,815,366	34,086,104
	318,580,379	309,478,575
TOTAL	$698,487,874	$653,546,426

See accompanying notes to financial statements.

BALANCE SHEET

Comparative Figures as of December 30, 1967)

LIABILITIES AND STOCKHOLDERS' EQUITY	December 28, 1968	December 30, 1967
Current Liabilities		
Notes payable to banks, short-term	$ 676,062	$ 2,115,225
Debentures, current maturity	3,290,000	2,198,000
Payables and accruals	192,628,221	170,618,323
Federal, Canadian and other income taxes	16,470,375	20,395,906
Total Current Liabilities	213,064,658	195,327,454
Long-Term Liabilities and Reserves		
Notes and debentures	30,735,789	34,104,033
Deferred income taxes	14,689,922	11,168,398
Minority interest in capital stock and retained earnings of subsidiaries:		
Preferred stock of Canadian subsidiary	5,918,900	6,238,700
Overseas subsidiaries	635,610	571,330
Reserve for self-insurance	2,856,976	2,595,251
	54,837,197	54,677,712
Stockholders' Equity		
Common stock	42,478,890	42,478,890
Additional paid-in capital	46,178,164	46,178,164
Retained earnings	341,928,965	314,884,206
	430,586,019	403,541,260
TOTAL	$698,487,874	$653,546,426

STATEMENT OF CONSOLIDATED INCOME AND RETAINED EARNINGS

For the 52 Weeks Ended December 28, 1968 (With Comparative Figures for the 52 Weeks Ended December 30, 1967)

	1968	1967
Sales	$3,685,690,368	$3,360,879,991
Cost of Sales	2,894,774,935	2,641,439,098
Gross profit	790,915,433	719,440,893
Operating and Administrative Expenses	672,375,975	616,005,388
Operating profit	118,539,458	103,435,505
Other Deductions		
Interest on debentures and long-term notes	1,602,924	1,736,553
Earnings of unconsolidated foreign subsidiary	(56,945)	(6,740)
Minority interests in earnings of overseas subsidiaries	64,280	35,933
Dividends on preferred stock of Canadian subsidiary	242,123	254,423
Other charges—net	1,160,815	1,286,933
	3,013,197	3,307,102
Income before provision for income taxes	115,526,261	100,128,403
Provision for Federal, Canadian and other income taxes	60,465,309	49,235,476
Net Income (per share: 1968, $2.16; 1967, $2.00)	55,060,952	50,892,927
Retained Earnings at Beginning of Period	314,884,206	291,950,018
	369,945,158	342,842,945
Deduct:		
Cash dividends on common stock (per share: 1968, $1.10; 1967, $1.10)	28,036,067	27,974,679
Additions resulting from stock acquisitions	(19,874)	(15,940)
	28,016,193	27,958,739
Retained Earnings at End of Period	$ 341,928,965	$ 314,884,206

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

BASIS OF CONSOLIDATION:

The financial statements include all subsidiaries of the Company on a fully translated basis at appropriate rates of exchange, except one minor overseas foreign subsidiary included in miscellaneous investments at equity.

The assets, liabilities and operating results of foreign subsidiaries included in the consolidated financial statements are set forth in the "Financial Review" elsewhere herein.

NOTES AND DEBENTURES:

Long-term notes payable consist principally of $30,000,000 of 4.65% term notes of the parent company due November 1, 1979. Payments of $1,500,000 semi-annually with no premium are required to commence May 1, 1970, with certain prepayment options at varying premium rates to maturity.

The debentures consist of: Parent, $3,000,000 at 4.25% interest maturing in 1969; Canadian subsidiary, $650,000 at 4.50% interest, with sinking fund requirement of $360,000 annually to maturity in 1970. Debentures of $70,000 have been acquired to meet certain future sinking fund requirements of the subsidiary.

Under the indenture covering the parent's debentures and agreements covering the 4.65% term notes, $182,250,708 and $143,354,928 respectively, of the retained earnings at December 28, 1968 are free of restrictions for dividend payments and acquisitions of outstanding common stock. Certain other restrictions, including one upon creation of additional funded indebtedness, are imposed by both the indenture and note agreements.

CAPITAL STOCK:

Capital stock consists of 4% cumulative preferred, 220,372 shares authorized and unissued and common stock, par value $1.66⅔ per share, authorized 27,000,000 shares, outstanding 25,487,334 shares (after deducting 45,968 shares in treasury).

Of the unissued common stock of the Company, 628,490 shares are reserved for issuance pursuant to the Stock Option Plan of 1963, authorizing the Board of Directors to grant to Officers and employees of the Company and its subsidiaries restricted options (qualified options as to those granted after January 1, 1964) to purchase common stock in consideration of their agreements not to terminate their employment before fixed dates. All matured options become void unless exercised within three months after employment terminates, with a one-year extension on employee's death, and in any event not later than ten years after the date of granting as to those granted before January 1, 1964, and five years as to those granted thereafter.

At the beginning of the year, options for 358,700 shares were outstanding at a total option price of $10,020,034. Options for 3,500 shares were granted during the year; options for 17,400 shares (which are subject to reallocation) became void due to death or termination of employment. No options were exercised during the year. No changes occurred during the year in the exercise price of outstanding options. At the end of the year options for 344,800 shares were outstanding which are or will become exercisable as follows: 131,100 at $22.00; 3,000 at $22.875; 2,000 at $25.125; 1,500 at $27.375; 173,600 at $30.5938; and 33,600 at $36.75. At the beginning of the year, 269,790 unoptioned shares were available for granting, and 283,690 were available at the end of the year.

DEPRECIATION:

The Statement of Consolidated Income includes a charge for depreciation of $44,158,445 in 1968 and $41,643,369 in 1967, computed on the straight-line method.

FEDERAL AND CANADIAN INCOME TAXES:

The 1968 tax investment credit of $2,230,000 has been applied as a reduction of Federal income tax expense, as in prior years.

Deferred income taxes arise principally as a result of claiming depreciation for income tax purposes in excess of that taken in the accounts. The provision for income taxes in the 1968 Statement of Consolidated Income includes $3,032,665 for such deferred taxes.

The Federal income tax returns of the Company for the years 1963 through 1966 are currently being examined by the Internal Revenue Service. The Company believes that adequate provision has been made for possible assessments of additional taxes for these years.

EMPLOYEE RETIREMENT AND PROFIT-SHARING PLANS:

The Company and its Canadian subsidiaries have contributory, trusteed retirement plans which may be amended or terminated at any time, for eligible employees not covered by other plans. The Company's practice is to contribute the full normal cost and payment toward amortization of any unfunded past service liability. The assets of the trust funds are more than sufficient to fund vested benefits. Charges to income for current year contributions amounted to $1,975,626.

Charges to income for Profit-Sharing Plan (U.S. only) contributions for the current year amounted to $4,019,566.

PROPERTY LEASES:

Leases are in effect on 2,622 properties, of which 1,555 can be canceled by the Company by offer to purchase the properties at original cost less amortization. Purchase of these properties would be necessary upon acceptance of such offers by the lessors.

Minimum rental on leases in effect at the year-end was approximately as follows for the years or periods indicated:

1969	$74,897,000	1974-1978	$353,999,000
1970	74,289,000	1979-1983	272,622,000
1971	73,780,000	1984-1988	105,171,000
1972	73,276,000	After 1988	44,448,000
1973	72,753,000		

CONTINGENT LIABILITIES:

The liability upon completion of contracts for construction of buildings and purchase of land not reflected in the financial statements amounted to approximately $26,500,000. Various claims and lawsuits incident to operations are pending against the Company and its subsidiaries. To the extent that such contingent liabilities are uninsured, General Counsel for the Company is of the opinion that the ultimate outcome of such claims and lawsuits will not have a significant adverse effect on the financial statements at December 28, 1968.

PRIOR YEARS' ADJUSTMENTS:

Retained earnings at the beginning of 1967 and 1968 have been restated from amounts previously reported to reflect a retroactive charge, relating to accrual of state franchise taxes in the income year, of $1,000,000 net of Federal income tax effect, in accordance with Opinion No. 11 of the Accounting Principles Board of the American Institute of Certified Public Accountants which became effective in 1968.

ACCOUNTANTS' REPORT PEAT, MARWICK, MITCHELL & CO.

To the Board of Directors and Shareholders of Safeway Stores, Incorporated:

We have examined the consolidated balance sheet of Safeway Stores, Incorporated and subsidiaries as of December 28, 1968 and the related statement of income and retained earnings and the statement of source and use of funds for the fifty-two weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statement of consolidated income and retained earnings present fairly the financial position of Safeway Stores, Incorporated and subsidiaries at December 28, 1968 and the results of their operations for the fifty-two weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the statement of source and use of funds for 1968 presented herein under Financial Highlights presents fairly the information shown therein.

San Francisco, California
February 28, 1969

Peat, Marwick, Mitchell & Co.

❝ *To provide attractive, convenient stores…* ❞

Our store in the town of Mt. Shasta, California with the spectacular 14,162-ft. mountain for a backdrop, is at the hub of a thriving tourist and vacation area famous for summer and winter sports activities.

Safeway's Marina store in San Francisco glows invitingly as the lights of the city begin blinking on at dusk. This is one of our largest-volume stores. You can stand in the lobby here and watch fishing boats and ocean liners heading out the Golden Gate.

These are Safeway stores: a variety of styles and sizes in various areas—big city, suburban shopping center, valley town.

While the theme is unmistakably "Safeway," the architectural style varies to harmonize with local surroundings or to fit in with community development plans. Also making for more variety than in the past is our use of the newer structural materials and techniques that are becoming increasingly available. These often simplify construction and save on cost while enhancing utility and beauty.

In 1968 we opened 122 new stores, and we are stepping up the pace for both replacement and expansion. By 1970 and '71 we expect our new openings to increase by about 25%. This continuing program has kept a majority of our stores under ten years of age, and almost all of the others have been remodeled at least once.

Besides being modern and attractive, our stores must be convenient, to make shopping in them a pleasant experience. This means the proper location in town and the right layout of building and parking lot. Within the stores it means convenient and efficient arrangement of aisle space and merchandise, and modern checkstands providing fast and efficient service.

The vital nature of this objective is well understood. This is the front line; this is our lifeline. This is where we meet the customer and compete for her favor.

Striking structure behind our new store in Edmonton, Alberta, Canada lends a metropolitan air to this scene. The store is located in a shopping center.

Curved roof lends a familiar gracefulness to this new supermarket in Tulsa, opened in October, 1968. Safeway now has more than 100 stores in Oklahoma.

Pleasing design of our new store in Alamo, California, blends in well with the surrounding countryside in this wooded suburb in the San Francisco Bay Area.

●● *To be known for superior perishables—meats, produce, dairy*

Colorful and appealing fresh perishables go beyond merely filling the consumer's needs for these products. They're a sign of over-all excellence in food retailing, and for many a customer they're the determining factor in deciding where to shop. That's why Safeway puts priority emphasis on perishables.

Our fresh meat program is a *quality* program. It starts with the purchase of top Government grades in carcass form from the packer, and provides rigid quality control every step of the way through breaking and processing and into the stores.

Fresh produce in our stores receives no less attention than fresh meats. Crisp heads of lettuce and ripe, unbruised fruits are the result of expert attention by many people.

Full-time professional Safeway produce buyers go into the fields in every major producing area from 27 produce branch offices in the U. S. They select quality products, and start them on a carefully protected (often refrigerated) journey through Safeway produce warehouses to the stores.

In 1968 Safeway research developed see-through plastic bags on a continuous roll for customers to use for their produce purchases, largely replacing the brown paper bags. These new plastic bags were an instant success. Checkers can now identify produce without having to open the bags. Customers like them for various repeat uses at home.

Superiority in perishables is a goal we take seriously at Safeway.

Crisp, fresh produce is artfully displayed for mass effect and color contrast. Note roll of plastic bags, a Safeway innovation.

products, and baked goods. ❞

Breads and cakes still warm from the oven are featured in the complete bake shops of our larger stores.

It's a pleasure to select items from this wide assortment of domestic and imported cheese.

Safeway's quality meat program starts with the purchase of top government grades. Final results are full displays of tender, well-trimmed meats for our customers.

To practice responsible citizenship in the conduct of our

Much was required of a corporate good citizen in 1968.

This was the year when the National Alliance of Businessmen mobilized private industry in an accelerated program of hiring and training the disadvantaged unemployed in 50 U.S. cities.

Safeway's President Quentin Reynolds served on President Johnson's 15-man national executive board (see photo), and Vice-President Malcolm Grover worked full time for several months as a key executive in the NAB's national office in Washington.

By the year end our U.S. Divisions had hired, trained, and put to work some 280 disadvantaged adult unemployed, toward a pledge of 375 by June, 1969. In addition, we had employed more than 350 "needy youth" in summer jobs.

This was also the year when Safeway helped a competitor in a black community of San Francisco. A co-op grocery store with 3,000 members in the Hunter's Point neighborhood was on the brink of failure due to a combination of unfortunate circumstances. We heard about it and gave them a helping hand.

Today this co-op store is running more than double its previous sales volume (see "before and after" pictures), and, hopefully, is on the road to success.

We've been asked—and it's a good

Business leaders including Safeway President Quentin Reynolds meet in the White House on plans of National Alliance of Businessmen.

Congressman Rosenthal cuts ribbon for new store opening in depressed area of Washington, D.C. as Store Manager Joe Skeens looks on. A month later Store Mgr. Skeens views interior burned in riots after assassination of Dr. Martin Luther King. Group on opposite page answered emergency call to man stores on tense Sunday marking end of riots.

business, and in community and social relations. ❞

question—why an enterprise in business for a profit should be interested in helping to solve the problems of society. We have answered that in our opinion it is not only good citizenship, but is necessary for a good business environment and perhaps even for the survival of private enterprise itself.

This was the year when violence and fire erupted in the streets of Washington, D.C., following the assassination of Dr. Martin Luther King.

Some of our stores were in the path of that fury, and inevitably there was damage, though far less than might have been. When Sunday morning dawned quiet but still tense and smoky, our Division Manager was asked by the city's emergency food committee if Safeway could quickly open some stores.

Store staffs were contacted for volunteers to brave the apparent dangers. Their response was magnificent. In less than four hours, eight Safeway stores were open in the riot-torn area, and crowded with grateful customers.

It is said that crisis brings out the best in people. Perhaps so. Certainly the shared feelings of good will on that day brought a sense of renewed hope for the cause of better citizenship to come, both corporate and individual.

"Before and after" views of the Safeway-assisted co-op grocery in the black community of Hunter's Point, San Francisco. Refurbished store symbolizes new hopes for success on the part of the co-op's 3,000 members.

"To strengthen our organization by continuous and systematic training and development of employees and managers."

Mark Schimbor, standing, a Stanford "Biz School" student in our MBA program, confers with Vice President Grover and Steve Booth, formerly in the program, now with Safeway. Mark later reports at meeting, flanked by Pres. Reynolds and Exec. VP Mitchell.

Our summer MBA program was active again in 1968.

In three of the last four years we have employed students from nearby graduate schools of Business Administration to work with us during the summer months. Each young person tackles an important management project of current interest to the Company, and reports his findings to top management.

Both the students and we find this a stimulating and beneficial experience. They make contacts that may lead to future employment, and we are stimulated by fresh ideas; they learn more about business, and we learn more about today's college students.

At summer's end the students return to school for another year before graduating with MBA degrees. The Stanford Graduate School of Business, whose Advisory Council includes Safeway Board Chairman R. A. Magowan, has long encouraged this kind of summer employment for the enrichment of the students' final year of academic work.

Another program oriented in part to the college-educated is our Retail Management Training Program. Of the 240 persons now taking it, about two-thirds are college graduates or have had some college education.

This training is continuing to produce qualified Store Managers in a relatively short time, to meet the needs of the Company's growth. More than 250 of the employees who have taken it have become Store Managers since the program started three-and-a-half years ago.

Our Management Development Program, above Store Manager level, is in its tenth year and has graduated 255.

Thousands of college students work part-time in Safeway stores, a fertile source of potential management talent. Here Washington, D.C. Division hosts a meeting of its most promising college seniors to discuss career employment. Eleven in this photo are students; the rest are management, including Vice President and Division Manager Basil Winstead, seated third from left at center table.

❝ *To operate efficiently at the lowest costs consistent with quality and growth.* ❞

Management training goes on in Safeway not just for retail store people, but for those in supporting functions backstage that the public doesn't see.

In 1968 we retained a management consultant firm to study and improve management training for our people in warehousing and trucking operations—managers, superintendents, supervisors, and foremen. As a result, a new training program on management principles and practice was developed for their needs specifically and to date has been given in four large Retail Divisions.

Our Distribution Center managers and supervisors carry a large responsibility. An example is the new distribution center which Safeway built in Sacramento, California in 1968 (see photo below).

This impressive complex of warehouse and trucking facilities now serves some 90 stores in central and northern California and western Nevada, and has the capacity to serve many more as our business in these areas expands.

In 1968 there was new or expanded warehouse construction in these Divisions: Phoenix, Little Rock, Denver, Southern California, Washington, D.C., Vancouver and Calgary.

Each of Safeway's Retail Divisions in the U.S. and Canada, with two small exceptions, is served by a modern distribution center. We have built and opened twenty of them in the last eighteen years—14 in the ten years from 1955 to 1965. Safeway was a pioneer in this "center" concept with our first one in Washington, D.C. in 1951—a program that has contributed much to the marvelously efficient food distribution systems in the U.S. and Canada today.

Trucks began rolling at midyear, 1968, from this new Safeway Distribution Center in Sacramento, California, serving more than 90 stores. This impressive complex has three warehouses, a produce prepack area, and a truck repair shop—about ten acres under roof.

...and stocked with the products customers want to buy.

In a successful food store it is the customer who determines which products and brands will be regularly stocked. By her purchases she "votes" for the products she wants to buy, and the alert merchant soon removes those which don't win her favor.

Each Safeway store displays popular national and local brands, but we also offer a choice of Safeway's own brands—quality products at prices representing good values, exclusive at Safeway.

Safeway brands have won the customer's favor over the years—such famous names as Lucerne dairy products, Town House canned goods, Bel-Air frozen foods, Mrs. Wright's Bread, and Edwards Coffee (see $ Brand items photographed in shopping carts below).

New items include Safeway Liquid Sweetener, Party Pride Potato Chips, Safeway Corn Flakes, Town House Soups and Nob Hill Freeze Dried Coffee.

Meeting the demand for Safeway Brands requires a diversified supply operation: manufacturing and processing plants, and many people engaged in purchasing, production, quality control, package design, and marketing.

Extensive plant building and modernizing are also required. Under construction or completed in 1968 were the new Calgary and Washington, D.C. bread plants; new milk plants for the Phoenix, Vancouver, B.C., and Winnipeg areas; a new household chemical plant at Denison, Texas; expanded bread plants at Richmond, California, and Los Angeles; and an expanded milk plant at Washington, D.C.

Safeway Brands are a strong "plus" factor in the makeup of our Company.

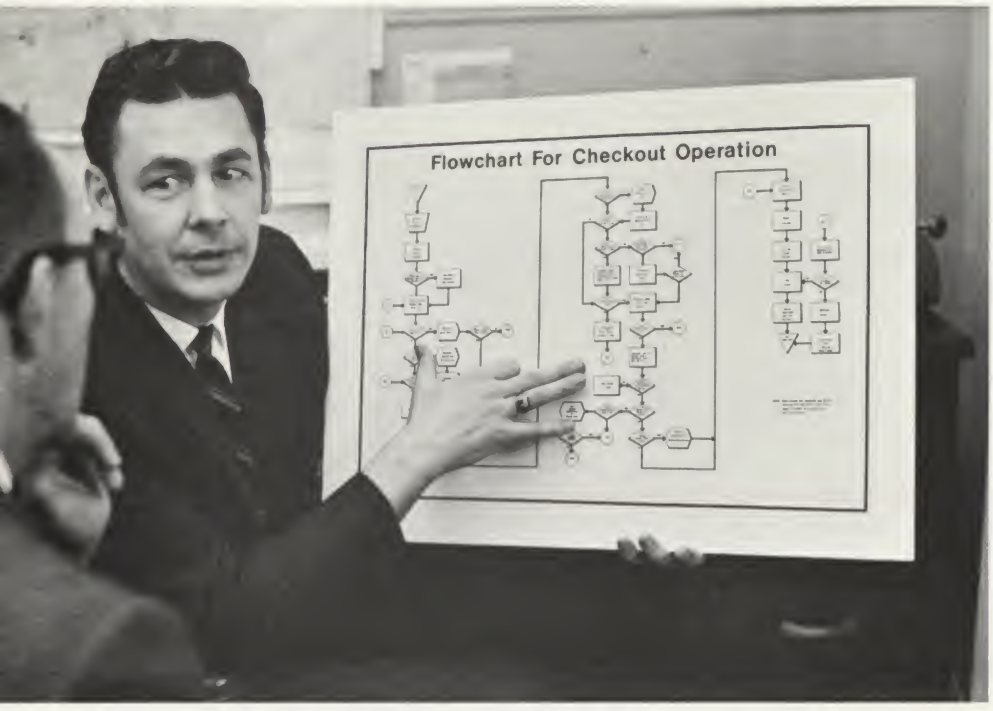
Shopping carts below are filled with $ Brands—quality products at prices representing good values, exclusive at Safeway. Over the

A glimpse of action inside Safeway's new automated bakery plant in Landover, Md., serving 252 stores in our Washington, D.C. Division. Building is 160,000 sq. ft., site 18½ acres.

New Brand cheese plant to be built this year in Carthage, Mo., to serve stores throughout U.S., will cut and package a wide variety of natural cheeses, both imported and domestic.

years they've won their share of the customer's favor in competition with popular national and local brands, which Safeway stores also offer.

❝ *To be alert to new ideas, opportunities, and change.* ❞



Here you see what makes an Industrial Engineer's eyes sparkle. He's explaining a computer analysis of the store checkout procedure – more than fifty separate steps.

New "beef prefab" program at a Safeway meat warehouse breaks beef carcasses into sub primals, puts them in plastic bag for cleaner, easier shipment to our stores.

The day may yet come when beef primals no longer hang from a meat rail in the store cooler, waiting to be cut into retail steaks and roasts.

A new program known variously as "beef prefab," or "block-ready meats" was tested last spring, and is being used in a number of Safeway areas. It involves breaking sides and primals at the warehouse into smaller cuts ready for the meat block; putting them in plastic bags (usually vacuum-shrunk tight); then in cartons for shipment on pallets to the stores.

Improved operations and increased yields are claimed for this program, as well as significant related savings.

The smaller "sub-primals" still require final cutting and packaging in the store. However they are now much more ready for store handling, so it can be done more quickly and easily and with better results.

Expensive meat rails, hooks, and trolleys can be eliminated from the stores. Plastic-bagged sub-primals "shrink" less in transit and in storage, and require less trimming. Packed in cartons and palletized, they are easier to handle and transport than the heavy, irregularly-shaped primal cuts. They also require less space in a truck and in the cooler.

Here as in other fields Safeway is alert to test new ideas, and quick to adopt those that prove out.

Another area where the search for better methods continues is our checkstand operation. This is being analyzed by our industrial engineers using computers.

The computer simulates the many steps in the actual checking out process (see photo). It quickly tests the effect of any changes in manpower, method, or equipment—as to time that may be saved for the customer and the checker.

In many other ways computers are contributing to Safeway's ability to grow and improve. Our developing central computer system successfully "took over" its first segment of work from a Retail Division in 1968.

When completed this system will embrace all 18 U.S. Retail Divisions, and provide better and faster information to management at both corporate and division levels.

Color of sky and familiar sweep of a sparkling new Safeway store look much the same in Australia as in Northern Hemisphere. This 20;000-ft. supermarket with 10 checkstands in Greensborough, near Melbourne, was swamped with customers (below) on opening day.

...to assure the continuing healthy growth of the Company.

Our Safeway operations overseas are quite profitable and are on a growth trend that promises a bright future. This applies to all of them: United Kingdom, West Germany, and Australia.

The United Kingdom Division opened three new stores in 1968, and the Australia Division opened three. We now have 56 stores overseas—more than five times the number we began with in England six years ago. Future plans call for substantially stepping up the rate of new store construction in the next several years.

Our Australia Division opened a new large produce warehouse in 1968 to serve our stores in the Melbourne area.

The Company will build a new Distribution Center to serve Greater London and surrounding territory. This warehouse and trucking complex will be located at Aylesford, Kent, and is scheduled to open in late 1970.

It will consist of a Division office, grocery warehouse, produce warehouse, frozen foods warehouse, meat depot, dairy and cheese facility, and truck shop and salvage building. Total floor space will exceed 150,000 square feet.

Safeway-style retailing has been warmly welcomed by the people we serve in the United Kingdom, in West Germany, and in Australia. We're proud of this accomplishment, and of the increasingly important contribution our overseas Divisions are making to the sales and profit growth of the Company.

While the overseas avenue of expansion thus prospers, the Company also seeks other avenues.

An example was the announcement late in 1968 that Safeway in partnership with Holly Farms Poultry Industries, Inc. will construct and operate ready-to-eat, take-home chicken outlets. The first of these is scheduled to open this spring in the Washington, D.C. area.

Sketch of planned outlets for take-home, ready-to-eat chicken (see story).

Regions and Divisions

At year's end we had a total of 2,241 stores in the United States, Canada, England, Scotland, West Germany and Australia.

Regional Managers in the United States report to the President. The Canadian Regional Manager and the overseas Division Managers report to the Executive Vice President.

Listed below are the Regional Managers and Retail Division Managers.

REGIONAL MANAGER Henry B. Clay

DALLAS DIVISION Horace A. Justice
150 Stores

EL PASO DIVISION Robert L. Jaynes
53 Stores

KANSAS CITY DIVISION Jack L. Anderson
97 Stores

LITTLE ROCK DIVISION James A. Rowland
59 Stores

OKLAHOMA CITY DIVISION R. E. Templeman
77 Stores

OMAHA DIVISION Paul K. Hendrix
84 Stores

PHOENIX DIVISION Henry J. Frank
36 Stores

SOUTHERN CALIFORNIA DIVISION Earl W. Smith
233 Safeway Stores
15 Safeway Drug Centers

TULSA DIVISION Fred E. Rowland
47 Stores

WASHINGTON, D.C. DIVISION Basil M. Winstead
252 Stores

REGIONAL MANAGER G. H. Parker

BUTTE DIVISION P. P. Martin
39 Stores

DENVER DIVISION R. L. Campbell
153 Stores

PORTLAND DIVISION Fred E. MacRae
105 Stores

SACRAMENTO DIVISION George E. Rudolph
89 Stores

SALT LAKE CITY DIVISION Floyd H. Gifford
64 Stores

SAN FRANCISCO DIVISION L. A. Bianco
211 Stores

SEATTLE DIVISION C. A. Bradburn
112 Stores

SPOKANE DIVISION L. M. Pringle
39 Stores

NO. CALIF. DRUG CENTERS
15 Safeway Drug Centers
1 Safeway Super Store

REGIONAL MANAGER W. J. Kraft

PRAIRIE DIVISION A. G. Anselmo
107 Stores

VANCOUVER DIVISION W. J. Kraft
96 Stores

WINNIPEG DIVISION W. F. Griffiths
51 Stores

OVERSEAS

AUSTRALIA DIVISION J. W. R. Pratt
19 Stores

UNITED KINGDOM DIVISION John S. Kimball
30 Stores in United Kingdom
7 Stores in West Germany

Safeway Stores, Incorporated

EXECUTIVE COMMITTEE

ROBERT A. MAGOWAN
Chairman

ERNEST C. ARBUCKLE

CHARLES DE BRETTEVILLE

A. RUSSELL GRIFFITH

ROGER D. LAPHAM, JR.

QUENTIN REYNOLDS

MILTON L. SELBY

DIRECTORS

ROBERT A. MAGOWAN
Chairman of the Board and Chief Executive Officer

ERNEST C. ARBUCKLE
Chairman of the Board Wells Fargo Bank

J. G. BOSWELL II
President and Director J. G. Boswell Company

NORMAN CHANDLER
Chairman of the Executive Committee The Times Mirror Company

HENRY B. CLAY
Vice President

CHARLES DE BRETTEVILLE
Chairman of the Board and President The Bank of California, N. A.

ARTEMUS L. GATES
Business Consultant

A. RUSSELL GRIFFITH
Retired, formerly Vice President and Treasurer of the Company

MALCOLM P. GROVER
Vice President

LORENZO N. HOOPES
Vice President

ROGER D. LAPHAM, JR.
President and Director of Frank B. Hall & Co. of California and Director of Frank B. Hall & Co., Inc. (New York)

MERRILL L. MAGOWAN
Account Executive and Stockholder Merrill Lynch, Pierce, Fenner & Smith Incorporated

MICHAEL W. MCCARTHY
Retired, formerly Chairman of the Executive Committee, Merrill Lynch, Pierce, Fenner & Smith Incorporated

W. S. MITCHELL
Executive Vice President

GLENN K. MOWRY
Vice President and Treasurer

G. H. PARKER
Vice President

QUENTIN REYNOLDS
President

MILTON L. SELBY
Retired, formerly President of the Company

JACK I. STRAUS
Chairman of the Executive Committee R. H. Macy & Co., Inc.

OFFICERS

ROBERT A. MAGOWAN*
Chairman of the Board and Chief Executive Officer

QUENTIN REYNOLDS*
President Executive Officer in Charge of Operations

W. S. MITCHELL*
Executive Vice President

C. A. BRADBURN
Vice President Seattle Division Manager

R. L. CAMPBELL
Vice President Denver Division Manager

HENRY B. CLAY*
Vice President Regional Retail Manager

BEACH H. DEAN, JR.
Vice President and Assistant Treasurer Real Estate Finance

CLIFFORD L. GANT*
Controller

MALCOLM P. GROVER*
Vice President Personnel, Public Relations, Industrial Relations and Economic Research

K. W. HESS
Vice President Grocery Merchandising

LORENZO N. HOOPES*
Vice President Supply Operations

JAMES M. MCGINTY
Vice President and Assistant Treasurer Treasurer's Office

GLENN K. MOWRY*
Vice President (Finance) and Treasurer Principal Financial Officer

G. H. PARKER*
Vice President Regional Retail Manager

W. C. PEET, JR.
Vice President Corporate Development

EARL W. SMITH
Vice President Southern California Division Manager

ROBERT J. VAN GEMERT*
Vice President and Secretary General Counsel

HERMAN F. WEBER
Vice President Industrial Relations

BASIL M. WINSTEAD
Vice President Washington, D. C. Division Manager

PAUL A. BAUMGART
Vice President (Elected 2-17-69) Corporate Economist

GERALD E. BROWN
Vice President (Elected 2-17-69) Advertising and Market Research Division Manager

PHILIP G. HORTON
Vice President (Elected 2-17-69) Real Estate Division Manager

*Executive Officers of the Company

EXECUTIVE OFFICES
Fourth and Jackson Streets, Oakland, California
(P.O. Box 660, Oakland, California 94604)

TRANSFER AGENTS
The Chase Manhattan Bank (National Association), New York, New York and the Crocker-Citizens National Bank, San Francisco, California

REGISTRARS
First National City Bank, New York, New York and The Bank of California, National Association, San Francisco, California

ACCOUNTANTS
Peat, Marwick, Mitchell & Co.

ANNUAL MEETING
The 1969 Annual Meeting of the Common Stockholders will be held on May 20, 1969. In connection with this meeting, proxies will be solicited by the management. A notice of the meeting, together with a proxy statement and a form of proxy, will be mailed separately to Common Stockholders about April 14, 1969. This Annual Report does not constitute part of the proxy soliciting material.

SAFEWAY STORES, INCORPORATED
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